



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

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MEMORANDUM

To: The Honorable Lincoln C. Almond, Governor
The Honorable John B. Harwood, Speaker of the House
The Honorable William V. Irons, Senate Majority Leader

From: Russell C. Dannecker, Senate Fiscal Advisor *R.C. Dannecker*
Michael F. O'Keefe, House Fiscal Advisor *Michael O'Keefe*
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Date: November 21, 2002

Subject: November 2002 Revenue Estimating Conference

SUMMARY

The Revenue Estimating Conference (REC) met on 30 October, and 6 & 8 November 2002 in open public meetings. The REC adopted the economic forecast for 2003 to 2011, reviewed and revised enacted FY2003 revenue estimates and prepared the first estimates for FY2004. The Conference revised the FY2003 enacted estimates upward by \$6.0 million based on FY2002 actual revenues, collections through October, and the revised economic forecast.

The Conference estimated FY2004 revenues at \$2,648.8 million, which is (\$64.2) million less than the revised FY2003 estimates. The estimates are based on current laws, which include for example the expiration of the hospital licensing fee. Tables showing the estimates and the changes are included at the end of this report.

RHODE ISLAND ECONOMIC FORECAST

The Conferees met with the consulting economists from Global Insight (formally DRI-WEFA) and Economy.com on October 30th to review the May 2002 economic forecast. James Diffley, Group Managing Director, US Regional Services, Global Insight, and Steven G. Cochrane, Director of Regional Services, Economy.com presented economic outlooks. Rhode Island's labor force and unemployment data was presented by Robert J. Langlais, Assistant Director, Labor Market Information, Department of Labor and Training.

Global Insight

A summary of Rhode Island's outlook was presented. The State's median existing house price growth from 1999 to 2002 is +12.7%. This compares to the United States growth rate of +6.5%. Rhode Island had seen payroll employment gains in the first and second quarters of calendar year 2002, but job losses in the third quarter negated nearly all of these year-to-date payroll employment gains. A very weak fourth quarter is expected. Rhode Island's unemployment rate is now at 5%. The following chart compares Rhode Island to Connecticut, Massachusetts, and the United States in employment growth year over year for September, income year over year 2nd quarter of 2001 and 2002, and the September unemployment rate.

Relative Performance			
	Employment	Income	Unemployment Rate
Rhode Island	0.5%	5.3%	5.0%
Connecticut	-0.3%	1.5%	4.1%
Massachusetts	-1.4%	1.3%	5.2%
United States	-0.6%	2.7%	5.5%

Economy.com

The Rhode Island economy continues to vacillate between expansion and contraction. The size of month-to-month job movements – either positive or negative – are not large. Neither is there a consistent trend to the economy. Financial services industry employment is stagnant, at best. The financial services industry will be hampered within the state by the downturn in the stock market, which is inducing a flight from risk among household investors. Financial Services that has been an important employment driver in Rhode Island and it is clearly at risk. At the very least, the industry in Rhode Island will be stagnant for the medium-term, while it could contract for a year or two in a worst-case scenario.

Department of Labor and Training

The recent increases in Rhode Island's unemployment rate, the decline in resident employment and the rise in the number of unemployed reflect a difficult job market. Jobs at Rhode Island businesses have only grown by 0.5% over last September and the year-over-year increases have gotten smaller in each of the last five months. While it appears that Rhode Island is still making positive gains, the gains are small and a full recovery will take some time at this pace.

RI Businesses				
TOTAL JOBS				
(1,000s, Seasonally Adjusted))				
	Sep-01	Sep-02	Change Number	Percent
Contract Construction	18.7	18.0	(0.7)	3.7%
Manufacturing	68.3	66.6	(1.7)	2.5%
Transportation & Public Utilities	17.1	16.8	(0.3)	1.8%
Wholesale & Retail Trade	107.7	108.2	0.5	0.5%
Finance, Insurance & Real Estate	32.4	33.7	1.3	4.0%
Service Industries	169.0	171.7	2.7	1.6%
Government	64.8	65.6	0.8	1.2%
TOTAL JOBS	478.0	480.6	2.6	0.5%

Consensus Forecast

The Revenue Estimating Conference adopted an economic estimate that is based on a period of gradually increasing employment and income growth through FY2004, as well as moderate growth in consumer prices. The consensus forecast is shown on the table below.

November 2002 Consensus Economic Forecast											
	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010
Annual Growth											
Nonfarm Employment	2.5	0.5	0.6	0.4	1.0	0.7	0.7	0.7	0.7	0.7	0.7
Personal Income	6.9	4.1	4.7	3.5	4.7	4.2	4.1	4.1	4.1	4.1	4.2
Wage and Salaries Income	7.0	3.2	4.6	3.3	5.5	4.7	4.6	4.6	4.6	4.6	4.7
Farm Income	-59.1	-55.6	-22.6	7.5	2.7	5.9	5.1	4.7	4.5	4.4	4.4
Nonfarm Business Income	5.3	3.0	6.0	5.7	7.6	4.2	5.1	4.7	4.5	4.4	4.4
Dividends, Interest and Rent	8.6	2.3	1.6	2.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Total Transfer Payments	3.6	11.1	10.0	3.6	2.4	3.3	2.5	2.8	3.0	2.7	3.0
Rates											
Unemployment Rate	4.1	4.7	4.6	4.6	4.4	4.3	4.3	4.3	4.3	4.3	4.3
Consumer Price Index (US)	3.4	2.8	1.6	2.5	2.5	2.6	2.5	2.3	2.3	2.3	2.3
Ten Year Treasuries	6.0	5.0	4.6	5.0	5.7	5.8	5.9	5.9	5.9	5.9	5.9
Three Month Treasuries	5.8	3.4	1.7	2.4	4.5	5.0	4.9	4.9	4.8	4.8	4.8
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Annual Growth											
Nonfarm Employment	2.3	1.6	0.3	0.4	0.8	1.0	0.7	0.7	0.7	0.7	0.7
Personal Income	5.2	6.0	3.8	4.1	4.3	4.6	4.2	4.1	4.1	4.1	4.2
Wage and Salaries Income	6.1	5.5	3.1	3.9	4.7	5.4	4.7	4.6	4.6	4.6	4.7
Farm Income	-28.6	-66.7	-35.9	8.1	2.8	5.7	5.2	4.7	4.5	4.4	4.4
Nonfarm Business Income	6.6	3.3	4.6	5.1	8.0	5.3	4.5	4.9	4.6	4.4	4.4
Dividends, Interest and Rent	2.8	7.1	0.4	2.6	3.0	3.3	3.5	3.5	3.5	3.5	3.5
Total Transfer Payments	3.6	6.9	12.1	6.8	2.5	2.9	2.9	2.7	2.9	2.9	2.9
Rates											
Unemployment Rate	4.1	4.4	4.6	4.7	4.5	4.4	4.3	4.3	4.3	4.3	4.3
Consumer Price Index (US)	2.9	3.4	1.8	2.1	2.5	2.5	2.5	2.5	2.4	2.4	2.4
Ten Year Treasuries	6.2	5.4	5.0	4.4	5.4	5.8	5.9	5.9	5.9	5.9	5.9
Three Month Treasuries	5.2	5.1	2.1	1.9	3.5	4.9	5.0	5.0	4.9	4.8	4.8

REVENUES

Taxes. Revenues from taxes are estimated to increase **5.6%** in FY2003 from FY2002 and grow **4.9%** in FY2004 over the revised FY2003 estimate. Total estimated taxes for FY2003 of **\$2,011.8** million are **(\$8.2)** million below the enacted estimates. FY2004 total estimated taxes are **\$2,111.1** million, **\$99.3** million above the revised FY2003 estimate.

Personal Income Tax. The estimate of **\$829.7** million for FY2003 and **\$875.1** million for FY2004 represents growth rates of **2.7%** and **5.5%** respectively. However, the growth rates include the fifth year of the five-year phase in of the tax reduction adopted by the 1997 Assembly that lowers tax rates from 27.5% of federal liability to 25.0% of federal taxable income. The estimates reflect that FY2003 is the first year that the Personal Income Tax rate will be 25.0% for the entire year. The FY2003 estimate is **\$3.3** million more than enacted. The FY2004 estimate is **\$45.4** million more than the revised estimate.

The estimates also include adjustments for the deductibility of College Bound Fund contributions and the recapture of the Federal Job Creation and Worker Assistance Act impact on the Personal Income Tax.

All Business Taxes. The Conference estimates **\$201.5** million in FY2003 and **\$210.2** million in FY2004. Growth rates are **13.0%** and **4.3%**, respectively. The FY2003 estimate is **(\$22.5)** million less than enacted. The FY2004 estimate is **\$8.7** million more than the revised estimate. The revised FY2003 estimate's decline from enacted is caused by three revenue sources. The Business Corporation Tax is estimated to be **(\$10.1)** million less than expected, the Public Utilities Gross Earnings Tax **(\$11.2)** million less, and the Financial Institutions Tax **(\$5.2)** million less. Offsetting these losses to the enacted estimate are certain other business taxes. These three revised estimates are now based on actual collections in FY2002. In the case of the Business Corporations Tax it appears that that taxpayers did not take advantage of Federal Job Creation and Worker Assistance Act provisions in FY2002 that would have cost the State **\$9.6** million in that year. Therefore this amount will not be regained in FY2003 as assumed in the enacted budget.

Sales Tax. The Conferees estimate sales tax revenues of **\$778.2** million in FY2003 and **\$812.0** million in FY2004. The FY2003 revenues are the same as the enacted estimate, and represent growth of **4.4%** over actual FY2002 receipts. The FY2004 estimate is **\$33.8** million or **4.3%** more than the revised estimate.

Other Sales and Use Taxes. The Conferees estimated **\$159.7** million for FY2003 and **\$170.2** million for FY2004 from the other sales and use taxes, which include motor vehicle fees, cigarettes, and alcohol taxes. The FY2003 estimate is **\$3.8** million more than enacted. The FY2004 estimate is **\$10.5** million more than the revised estimate. Of this increase **\$8.4** million comes from the Cigarette Tax. Under current law the tax rate will increase another 18 cents per pack in FY2004, from a **\$1.32** to a **\$1.50** per pack of twenty cigarettes.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce **\$42.7** million in FY2003 and **\$43.6** million in FY2004. The FY2003 estimate is **\$7.1** million more than enacted. The increase is caused by a revision, based on year-to-date collections, of the Inheritance and Gift Tax estimate by \$8.0 million more than enacted. The FY2004 estimate is **\$0.9** million more than the revised estimate.

Departmental Receipts. The estimators adopted estimates of **\$276.6** million in FY2003 and **\$215.0** million in FY2004 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues. The FY2003 estimate is **\$5.6** million more than enacted. The FY2004 estimate is **(\$61.6)** million less than the revised estimate.

FY2004 drops off mainly due to the end of the hospital license fee in FY2003, which produces \$62.3 million. That fee has been on a year-to-year basis, and has been extended each year since its inception. However, the estimators must estimate within current law, under which there would not be a fee in FY2004.

Other Sources. Other source revenue consists of transfers to the general revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources, including tobacco settlement and securitization funds. These are estimated to produce **\$424.6** million in FY2003 and **\$322.7** million in FY2004. The FY2003 estimate is **\$8.7** million more than enacted. The FY2004 estimate is **(\$101.9)** million less than the revised estimate.

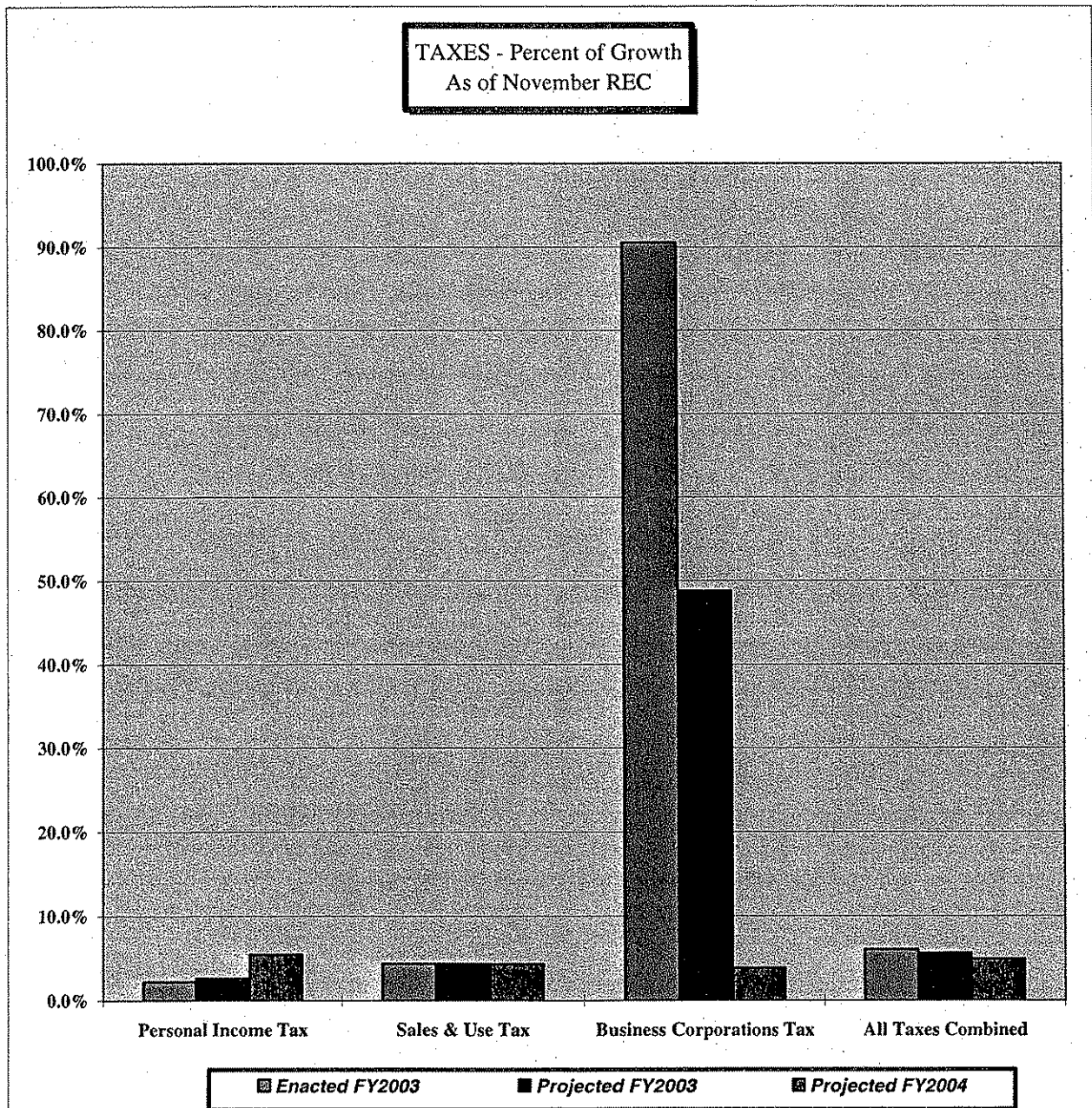
FY2004 is less than FY2003 for a number of reasons. First, the revised estimate includes the dedication, under current law, of the remaining 1/4 cent of the gas tax to transportation. This transfer is estimated at (\$1.2) million. Second, other miscellaneous revenue sources decline by (\$127.3) million. This latter decline includes the current law dedication of bond proceeds earnings, DEPCO earnings, and savings to the Sinking Fund in FY2004. This transfer totals \$7.9 million. Under current law there will not be a \$6.0 million contribution from the Resource Recovery Corporation in FY2004. Since the State chose to securitize its Tobacco Master Settlement Agreement (MSA) payments it will not have use of the \$53.4 million it did in FY2003. In addition, rather than have \$85.0 million in proceeds available from the securitization of the State's MSA payments, as was the case in FY2003. There is only \$30.0 million available in FY2004.

The Lottery is estimated to transfer **\$243.6** million in FY2003 and **\$270.6** million in FY2004. The FY2003 estimate is an upward revision of **\$5.9** million over the enacted estimate, and represents **13.8%** growth over FY2002. The FY2004 estimate is an upward revision of **\$27.0** million over the revised FY2003 estimate, and represents **11.1%** growth over FY2002.

Transfers from video lottery terminals are estimated to grow 16.8% in FY2003 to \$174.0 million, and further by 12.9% in FY2004 to \$196.4 million. This does not include any impact from the proposed introduction of new machines.

NEXT MEETING

The next required meeting of the conference is currently scheduled for May 2002. The Conferees did discuss the possibility on an additional meeting to estimate video lottery terminal income should the Lottery Commission approve additional machines prior to the convening of this scheduled meeting.



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REVENUE COMPARISONS - FY2003		Enacted June Estimate FY2003	Conference November Estimate FY2003	Conference November Vs Enacted FY2003	Growth Rate FY02 to Enacted FY03	Growth Rate FY02 to Con. Nov. FY03
TABLE: REC#1						
REC Report						
22-Nov-02						
GENERAL REVENUES	Actual FY2002					
TAXES						
Personal Income Tax	\$808,156,977	\$826,419,000	\$829,700,000	\$3,281,000	2.3%	2.7%
GENERAL BUSINESS TAXES:						
Business Corporations	\$24,192,203	\$46,100,000	\$36,000,000	(\$10,100,000)	90.6%	48.8%
Franchise	\$8,545,064	\$8,700,000	\$8,700,000	\$0	1.8%	1.8%
Public Utilities Gross Earnings	\$80,813,972	\$94,800,000	\$83,600,000	(\$11,200,000)	17.3%	3.4%
Financial Institutions	\$3,385,254	\$8,700,000	\$3,500,000	(\$5,200,000)	157.0%	3.4%
Insurance Companies	\$32,351,133	\$35,500,000	\$39,200,000	\$3,700,000	9.7%	21.2%
Bank Deposits	\$1,138,120	\$1,200,000	\$1,200,000	\$0	5.4%	5.4%
Health Care Provider Assessments	\$27,843,706	\$29,000,000	\$29,300,000	\$300,000	4.2%	5.2%
SALES AND USE TAXES:						
Sales and Use	\$745,663,066	\$778,210,000	\$778,200,000	(\$10,000)	4.4%	4.4%
Motor Vehicle	\$45,842,821	\$45,810,000	\$46,500,000	\$690,000	-0.1%	1.4%
Motor Fuel	\$812,579	\$1,150,000	\$1,000,000	(\$150,000)	41.5%	23.1%
Cigarettes	\$85,478,817	\$98,900,000	\$101,800,000	\$2,900,000	15.7%	19.1%
Alcohol	\$10,039,097	\$10,000,000	\$10,400,000	\$400,000	-0.4%	3.6%
Marijuana Controlled Substances	\$0	\$0	\$0	\$0	0.0%	0.0%
OTHER TAXES:						
Inheritance and Gift	\$22,244,911	\$22,000,000	\$30,000,000	\$8,000,000	-1.1%	34.9%
Racing & Athletics Tax	\$5,470,031	\$5,450,000	\$5,290,000	(\$160,000)	-0.4%	-3.3%
Realty Transfer	\$2,691,142	\$8,100,000	\$7,400,000	(\$700,000)	201.0%	175.0%
TOTAL - Taxes	\$1,904,668,892	\$2,020,039,000	\$2,011,790,000	(\$8,249,000)	6.1%	5.6%
DEPARTMENTAL REVENUE						
TOTAL - Departmental Revenues	\$244,340,288	\$270,986,074	\$276,600,000	\$5,613,926	10.9%	13.2%
TOTAL - Taxes & Departmentals	\$2,149,009,180	\$2,291,025,074	\$2,288,390,000	(\$2,635,074)	6.6%	6.5%
OTHER SOURCES						
Gas Tax Transfers	\$546,830	\$10,575,000	\$10,575,000	\$0	1833.9%	1833.9%
Other Miscellaneous	\$232,339,319	\$159,773,040	\$162,693,000	\$2,919,960	-31.2%	-30.0%
Lottery	\$214,141,576	\$237,700,000	\$243,600,000	\$5,900,000	11.0%	13.8%
Unclaimed Property	\$7,419,763	\$7,900,000	\$7,760,000	(\$140,000)	6.5%	4.6%
TOTAL - Other Sources	\$454,447,488	\$415,948,040	\$424,628,000	\$8,679,960	-8.5%	-6.6%
TOTAL - GENERAL REVENUE	\$2,603,456,668	\$2,706,973,114	\$2,713,018,000	\$6,044,886	4.0%	4.2%

REVENUE COMPARISONS - FY2004 TABLE: REC #2 REC Report 22-Nov-02 GENERAL REVENUES	Conference November Estimate FY2003	Conference November Estimate FY2004	Conf. FY2003 November Vs Conf. FY2004 November	Growth Rate FY2002 to Conference Nov. FY2003	Growth Rate Conf. Nov. FY03 to Con. Nov. FY04
TAXES					
Personal Income Tax	\$829,700,000	\$875,100,000	\$45,400,000	2.7%	5.5%
GENERAL BUSINESS TAXES:					
Business Corporations	\$36,000,000	\$37,400,000	\$1,400,000	48.8%	3.9%
Franchise	\$8,700,000	\$9,000,000	\$300,000	1.8%	3.4%
Public Utilities Gross Earnings	\$83,600,000	\$88,400,000	\$4,800,000	3.4%	5.7%
Financial Institutions	\$3,500,000	\$3,700,000	\$200,000	3.4%	5.7%
Insurance Companies	\$39,200,000	\$40,100,000	\$900,000	21.2%	2.3%
Bank Deposits	\$1,200,000	\$1,230,000	\$30,000	5.4%	2.5%
Health Care Provider Assessments	\$29,300,000	\$30,400,000	\$1,100,000	5.2%	3.8%
SALES AND USE TAXES:					
Sales and Use	\$778,200,000	\$812,000,000	\$33,800,000	4.4%	4.3%
Motor Vehicle	\$46,500,000	\$47,900,000	\$1,400,000	1.4%	3.0%
Gasoline	\$1,000,000	\$1,200,000	\$200,000	23.1%	20.0%
Cigarettes	\$101,800,000	\$110,200,000	\$8,400,000	19.1%	8.3%
Alcohol	\$10,400,000	\$10,900,000	\$500,000	3.6%	4.8%
Marijuana Controlled Substances	\$0	\$0	\$0	0.0%	0.0%
OTHER TAXES:					
Inheritance and Gift	\$30,000,000	\$30,800,000	\$800,000	34.9%	2.7%
Racing & Athletics Tax	\$5,290,000	\$5,160,000	(\$130,000)	-3.3%	-2.5%
Realty Transfer	\$7,400,000	\$7,600,000	\$200,000	175.0%	2.7%
TOTAL - Taxes	\$2,011,790,000	\$2,111,090,000	\$99,300,000	5.6%	4.9%
DEPARTMENTAL REVENUE					
TOTAL - Departmental Revenues	\$276,600,000	\$215,000,000	(\$61,600,000)	13.2%	-22.3%
TOTAL - Taxes & Departmentals	\$2,288,390,000	\$2,326,090,000	\$37,700,000	6.5%	1.6%
OTHER SOURCES					
Gas Tax Transfers	\$10,575,000	\$9,450,000	(\$1,125,000)	1833.9%	-10.6%
Other Miscellaneous	\$162,693,000	\$35,445,000	(\$127,248,000)	-30.0%	-78.2%
Lottery	\$243,600,000	\$270,600,000	\$27,000,000	13.8%	11.1%
Unclaimed Property	\$7,760,000	\$7,220,000	(\$540,000)	4.6%	-7.0%
TOTAL - Other Sources	\$424,628,000	\$322,715,000	(\$101,913,000)	-6.6%	-24.0%
TOTAL - GENERAL REVENUE	\$2,713,018,000	\$2,648,805,000	(\$64,213,000)	4.2%	-2.4%